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ALL THE WORKERS WE NEED: DEBUNKING CANADA'S LABOUR- SHORTAGE FALLACY*

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SUMMARY

When the Royal Bank of Canada was recently caught up in a maelstrom of bad publicity over its use of temporary foreign workers, it led politicians and pundits to scrutinize and question the growing use by Canadian firms of imported, short-term labour. The Royal Bank was accused of misusing a system designed to help employers who could not find Canadian workers by using it, instead, to find cheaper foreign labourers to replace higher-cost Canadians. But the incident raises a bigger question than simply how one bank makes use of Canada's Temporary Foreign Worker Program (TFWP): Whether the program is, in fact, interfering with the natural supply and demand responses of the labour market. And if we want to make better use of available Canadian labour, the time has come for the federal government to start cutting back on the use of TFWP.

The number of admissions under the TFWP has nearly tripled in 25 years, from 65,000 to 182,000 in 2010. The primary justification for the expansion of the program has been the widespread assumption that Canada is suffering from a growing shortage of labour. Yet, it is hard to find any evidence to support this belief.

What Canada is arguably facing is a widening imbalance between the skills that the labour market demands and the skills that workers are equipped with, as well as between where the jobs are and where available workers live. There are looming worker shortages in certain sectors while other sectors have an overabundance of available workers. Improving the balance in the labour marketplace does not require an increase in the labour supply. Indeed, the TFWP is sometimes being used to fill jobs with foreign workers in regions that already suffer from relatively high unemployment rates. Temporary Foreign Workers could be distorting the labour-market forces that would bring together more Canadian workers and jobs.

A strategy is needed to better equip Canadian workers with the education, training and skills that employers are looking for, and to find ways to better mobilize unemployed workers from regions with lower demand for workers, to provinces with a greater need for workers.

With no evidence that any increase in immigration is necessary, Ottawa should consider holding the current immigration rate steady, and re-evaluate only when the business cycle warrants — possibly returning to the disused policy of increasing immigration rates in boom times, but lowering them during slower economic periods. Admissions under the Temporary Foreign Worker Program should be reduced, and provinces should bring some influence to bear on universities and colleges to align their programming, and the incentives to draw students into certain programs, more directly with labour-market needs. Finally, the government must find ways of inducing Canadian workers — through tax holidays or other measures — to move from high-unemployment regions to the provinces where the jobs are.

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POUR EN FINIR AVEC LE MYTHE DES PÉNURIES DE MAIN-D'ŒUVRE AU CANADA*

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RÉSUMÉ

Quand la Banque Royale du Canada a récemment été pointée du doigt dans les médias pour son recours au Programme des travailleurs étrangers temporaires (PTET), les politiciens et les experts ont commencé à examiner de près la question de l'utilisation croissante par les employeurs canadiens de main-d'œuvre à court terme importée. La banque a été accusée d'utiliser à mauvais escient un système conçu pour aider les entreprises à faire appel à des travailleurs étrangers, moins bien rémunérés que les Canadiens et par conséquent, moins coûteux, quand elles ne parvenaient pas à combler leurs besoins en main-d'œuvre. Mais l'incident soulève une question plus importante que celle de simplement savoir comment une banque peut se prévaloir du PTET : ce programme n'a-t-il pas pour effet de nuire au flux naturel de l'offre et de la demande sur le marché du travail? Et si nous souhaitons faire un meilleur usage de la main-d'œuvre canadienne disponible, le moment est venu pour le gouvernement fédéral de réduire l'utilisation de ce programme.

Le nombre des admissions en vertu du PTET a pratiquement triplé depuis 25 ans, passant de 65 000 à 182 000 personnes (2010). Pour en justifier l'expansion, on s'est fondé sur le postulat largement répandu selon lequel le Canada connaissait des pénuries croissantes de main-d'œuvre. Pourtant, il est difficile de trouver la moindre preuve à cet égard.

On pourrait avancer que le Canada connaît un déséquilibre de plus en plus grand entre les compétences en demande sur le marché du travail et celles que possèdent les travailleurs, lesquels ne vivent pas toujours là où l'on a besoin d'eux. On constate que des pénuries s'annoncent dans certains secteurs tandis que dans d'autres, les travailleurs sont en trop grand nombre. Pour améliorer l'équilibre sur le marché du travail, il n'est pas nécessaire d'augmenter la quantité de main-d'œuvre. Nul doute, on utilise parfois les travailleurs étrangers dans le cadre du PTET pour combler des emplois dans des régions qui sont déjà touchées par des taux de chômage passablement élevés. Le programme des travailleurs étrangers temporaires peut nuire aux forces du marché et empêcher davantage de Canadiens de se trouver un emploi.

Il nous faut une stratégie pour que les travailleurs canadiens aient accès à l'éducation, la formation et les compétences dont les employeurs ont besoin, et pour mobiliser les chômeurs dans des régions où la demande en main-d'œuvre est anémique, afin qu'ils viennent combler des emplois dans des régions où la demande est plus forte.

Puisque rien ne prouve qu'il faille augmenter les taux d'immigration, Ottawa devrait envisager de les maintenir tels quels et ne les réévaluer que si l'état des affaires l'exige, possiblement en réactivant la politique visant à augmenter les taux d'immigration dans des périodes fastes pour les réduire en période de ralentissement économique. Il faudrait diminuer le nombre des travailleurs admis en vertu du PTET et les provinces devraient inciter les universités et les collèges à revoir leurs programmes et leurs mesures incitatives à l'intention des étudiants pour qu'ils correspondent davantage aux besoins du marché du travail. Enfin, le gouvernement doit encourager les travailleurs canadiens à quitter les régions où sévit un chômage chronique pour se rendre dans les provinces où l'on recrute, au moyen d'incitatifs fiscaux ou autres.

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INTRODUCTION

An alarm is being raised across Canada about a growing labour shortage that threatens Canada's economy. The Canadian Chamber of Commerce lists labour shortages as the No. 1 barrier to improving Canadian competitiveness.¹ The Conference Board of Canada has produced a series of reports warning of significant labour shortages on the horizon in several provinces.² These concerns have been echoed by many in the media, who urge that action be taken now to fill current vacancies and to offset the looming shortages that threaten economic growth and our ability to fund social programs.³

While few observers doubt that Canada faces important shortages in some industries and regions, there is considerable disagreement about whether the country faces a general labour shortage now, or is likely to in the foreseeable future. Among the reasons for doubt are:

- Continued high levels of unemployment and underemployment, especially among young Canadians;
- Disappointing growth in real wages over the last 30 years;
- Deteriorating economic outcomes for immigrants to Canada, who have seen declines in entry wages and increased rates of poverty.

The goal of the present paper is to explore the nature of current and future labour shortages and discuss changes in a range of economic and social policies that might benefit employers and job seekers across the country.

LABOUR SHORTAGE

This is not the first time that Canada has seen a surge in concern about a labour shortage. A shortage of labour was widely viewed as an impediment to the settlement of the Canadian West in the late 19th and early 20th century, and led to significant changes in immigration policy that opened the door to newcomers from central and eastern Europe. More recently, the end of the baby boom and the beginning of a long period of below-replacement-level fertility triggered discussion about a potential labour shortage as early as the 1970s. Identifying the dimensions, or even the existence, of a labour shortage has proved challenging to economists. Denton and Spencer list 10 situations that societies might face that could reasonably be called a labour shortage.⁴ The first three on their list are most germane to current discussions. They are:

- General excess demand or a state in which “the aggregate demand for goods exceeds the economy's capacity to supply them...”

¹ The Canadian Chamber of Commerce, *Top 10 Barriers to Competitiveness*, <http://www.chamber.ca/images/uploads/Top10/Top10Barriers.pdf>.

² See, for example, The Conference Board of Canada, *Ontario's Looming Labour Shortage Challenges*, September 25, 2007, http://www.workforcecoalition.ca/downloads/conference_board_report.pdf.

³ See, for example, Steve Lafleur, “Only more immigrants can save Canada's economy,” *National Post*, August 2, 2011, <http://fullcomment.nationalpost.com/2011/08/01/steve-lafleur-only-more-immigrants-can-save-canadas-economy/>; Joe Friesen, “Why Canada needs a flood of immigrants,” *The Globe and Mail*, May 4, 2012, <http://www.theglobeandmail.com/news/national/time-to-lead/why-canada-needs-a-flood-of-immigrants/article4105032/?page=all>.

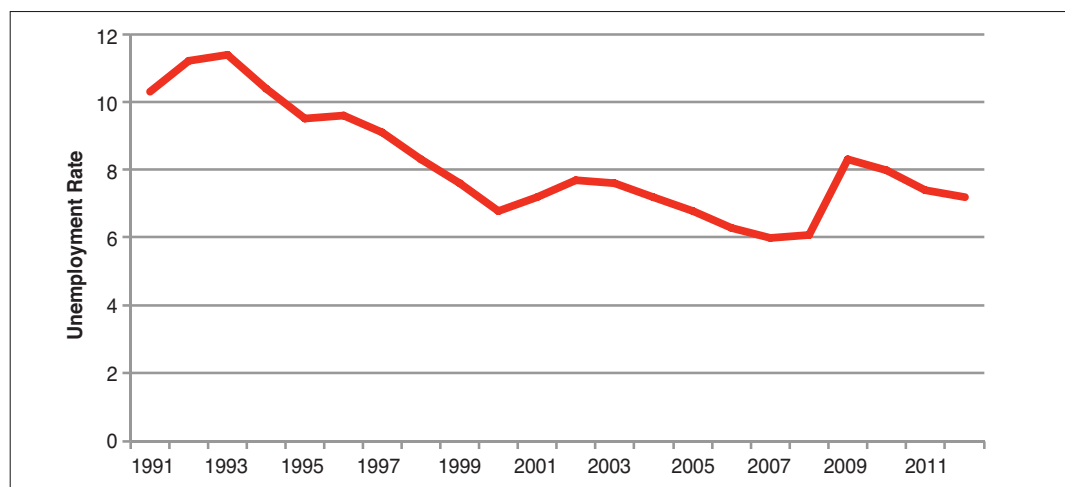
⁴ Frank T. Denton and Byron G. Spencer, “On the Prospect of a Labour Shortage,” *Canadian Public Policy* 4,1 (1978): 101-118.

- Specific excess demand in which “there may be excess demand for specific types of labour, even though no general excess exists in the labour market as a whole.”
- Shortfall of demand from what it “ought to be.” Here they are referring to a situation in which an increased supply of labour would allow for things to be accomplished that simply wouldn’t be with the existing labour supply.

As Denton and Spencer argue, the very notion of a labour shortage is a difficult concept for economists, who argue that modern economies tend towards equilibrium. If there is a shortage of workers generally or in a given area, then wage rates will increase and new entrants will be drawn to the existing opportunities. Economies do, indeed, adjust over time in response to increases in demand, but there are obstacles that can slow or even block the adjustment process. First, the skills and experience needed to fill complex jobs take time to acquire and shortages may persist for an extended period of time. And second, labour markets are seldom completely open to all qualified candidates. This is especially the case when considering national labour markets, which typically exercise considerable control over the entry of foreign workers.

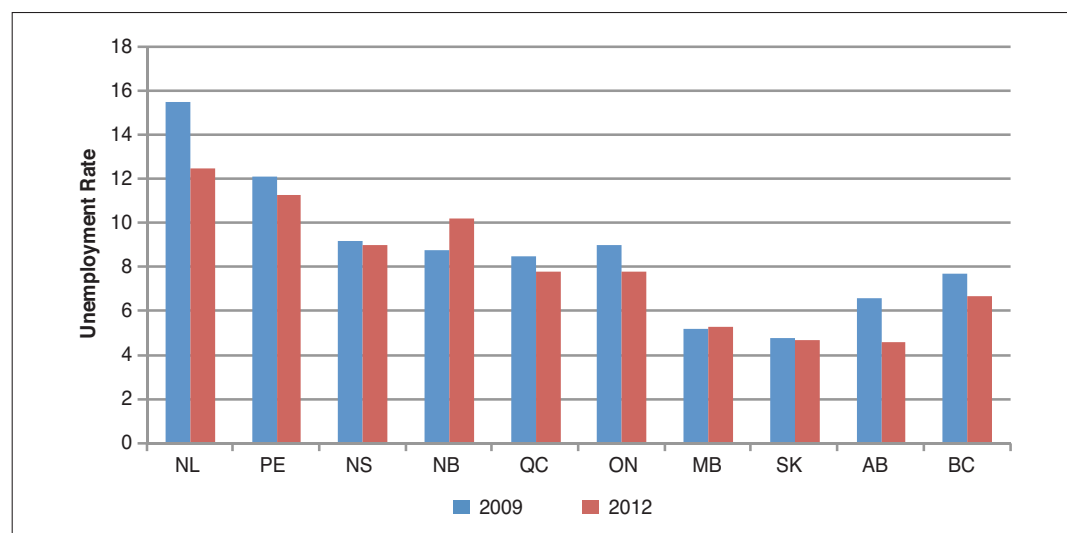
The evidence to identify a labour shortage or skills shortage is generally of two types: current data on the labour market, including unemployment rates and job vacancies, and longer-term projections, which attempt to calculate changes in the supply and demand for labour in the economy as a whole or for particular occupations. Figures 1 and 2 present data from Statistics Canada on unemployment rates for the period 1991 to 2012. Several points can be made briefly. First, as is well known, the national unemployment rate has oscillated with the general health of the economy, but the annual rate has not fallen below six per cent during this period. At the same time, it is also true that the country experiences wide regional differences in rates of unemployment, with the Prairie provinces consistently showing the lowest rates. Indeed, at no point during this period has the unemployment rate in one of the Prairie provinces exceeded the rate in any of the other seven provinces. Arguably, during the energy boom in the years prior to the financial crisis of 2008, Alberta experienced something approaching a general labour shortage, and, as economists would predict, the province saw rapid growth in wages and a strong tide of in-migration from other regions as well as from other countries. That case aside, it is hard to see any evidence in these figures to support the notion that Canada has yet experienced a general labour shortage.

FIGURE 1: UNEMPLOYMENT RATE (1991-2012)



Source: Statistics Canada, CANSIM 282-002, yearly averages.

FIGURE 2: UNEMPLOYMENT RATES BY PROVINCE (2009 AND 2012)

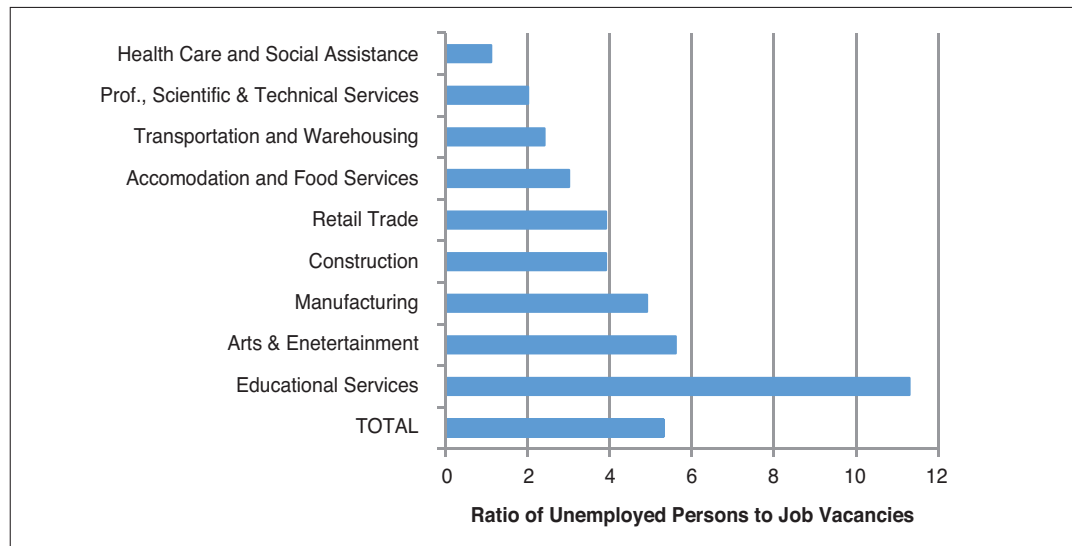


Source: Statistics Canada, CANSIM 282-002 and 282-0001.

The data in Figures 3 and 4 on job vacancies provide additional insight. The figures on job vacancies are based on the responses of employers surveyed by Statistics Canada. Employers are asked to report the number of vacant positions in their organization on the last business day of the month. The data on unemployment come from the monthly Labour Force Survey and show the number of persons who are not currently employed but are actively seeking work. The results point to significant differences between industries and across regions in the demand for workers. The data in Figure 3 point to potential shortages in areas such as health care, as well as in professional, scientific, and technical services; many of the jobs in the latter category are linked to mining and the oil and gas sector. At same time, there appears to be a significant oversupply of workers in other industries, most notably in educational services and arts, entertainment and recreation. For education, in particular, there are more than 10 unemployed persons for every available position. Narrowing the focus from industries to specific occupations, Tal identifies 25 occupations where skill shortages are evident.⁵ Tal notes that employers may often allude to shortages in various occupations when asked in a survey. He argues, however, that a true shortage will cause employers to respond by increasing wages to attract qualified applicants. In his list of occupations with significant skill shortages, he includes only occupations with “rapidly rising wages and low or falling unemployment.” The three leading groups of occupations in this list are managerial positions, professional positions in health care and the sciences, and skilled trades in primary industries. By contrast, clerical jobs, skilled and semi-skilled positions in manufacturing and services, and teaching positions showed clear signs of oversupply.

⁵ Benjamin Tal, “The Haves and Have Nots of Canada’s Labour Market,” *CIBC In Focus* (December 3, 2012) http://research.cibcwm.com/economic_public/download/if_2012-1203.pdf.

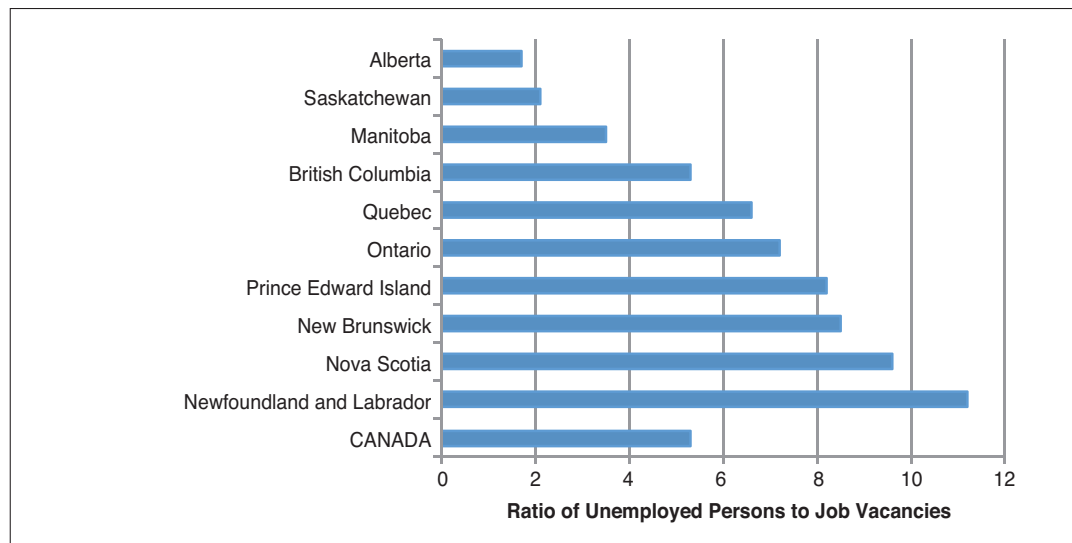
FIGURE 3: UNEMPLOYMENT TO JOB VACANCIES, FOR MAJOR ECONOMIC SECTORS, SEPTEMBER 2012*



Source: Statistics Canada, *The Daily*, December 12, 2012.

* three-month average ending in September 2012..

FIGURE4: UNEMPLOYMENT TO JOB VACANCIES, BY PROVINCE, SEPTEMBER 2012*



Source: Statistics Canada, *The Daily*, December 12, 2012.

* three-month average ending in September 2012..

Not surprisingly in light of the persistent regional differences in unemployment rates, the job vacancies data, shown in Figure 4, also point to pronounced regional differences in the demand for labour, with the western provinces showing low ratios of job-seekers to vacancies, while the eastern provinces have higher ratios. Overall, the evidence suggests that Canada faces an imbalance in the labour market, or as Denton and Spencer might say, evidence of specific excess demand rather than a generalized excess demand for labour.

While Canada may currently experience shortages in only select areas of the labour market, what is the outlook for the years ahead? There is no doubt that Canada's demography is changing. The total fertility rate has been below replacement level since 1972 and the rate of natural increase (the difference between births and deaths) is slowing. As a result, the Canadian population continues to age. The median age has increased from 26.2 in 1971 to 40.6 in 2011. Currently, 14.8 per cent of the population is 65 years of age or older and this proportion is expected to grow to almost 23 per cent by 2031. These trends will contribute to slower labour-force growth in the years ahead. Nevertheless, Statistics Canada's projections for the Canadian labour force show that, under five likely scenarios, Canada's labour force will continue to grow between now and 2031, although the rate of growth is forecast to decline, as is the overall labour-force participation rate. Due to the growing contribution of immigration to both population and labour-force growth, the proportion of foreign-born workers will also grow, with perhaps one in three workers having been born outside of Canada.⁶

Will this rate of growth be fast enough to offset potential labour shortages? A variety of analyses suggest that it won't. The Conference Board of Canada has produced a series of studies on various provinces pointing to significant and growing labour shortages over the next two decades.⁷ The province of Alberta, in its most recent analysis of labour-force growth, projects a potential shortfall of 114,000 workers by 2021.⁸ Other studies have focused on specific occupations and have identified potential shortages in IT, health care and a number of the skilled trades. All of these studies make clear that their projections for the future are based on a series of assumptions about future population and economic growth, technological change and shifts in the demand for goods and services. Our goal here is not to critique these forecasts in detail, but simply to underline the high degree of uncertainty involved in such forecasts especially as the time frame stretches further into the future.⁹

Forecasts of future labour demand focus on the expected growth in supply of, and demand for, labour in the overall economy and/or for particular industries and occupations. One might anticipate that the easier side of the equation to estimate would be the labour-supply side, but even here there is considerable uncertainty. When considering the labour force as a whole, forecasters must consider the growth in the source population and in labour-force participation rates. But both elements are subject to changes that can be hard to anticipate. For example, the Conference Board's analysis of Quebec's potential labour shortage¹⁰ pointed to the very low fertility rate in Quebec in 2002 of just 1.48 and assumed this would likely remain consistent in the years ahead. But by 2008, the total fertility rate (TFR) had already risen to 1.74, before

⁶ Laurent Martel, Erin Caron Malenfant, Jean-Dominique Morency, André Lebel, Alain Bélanger, and Nicolas Bastien, "Projected Trends to 2031 for the Canadian Labour Force," *Canadian Economic Observer* (August 2011) <http://www.statcan.gc.ca/pub/11-010-x/2011008/part-partie3-eng.htm>.

⁷ See note 2 above. In addition to the report on Ontario, the Conference Board has produced reports on Quebec and British Columbia.

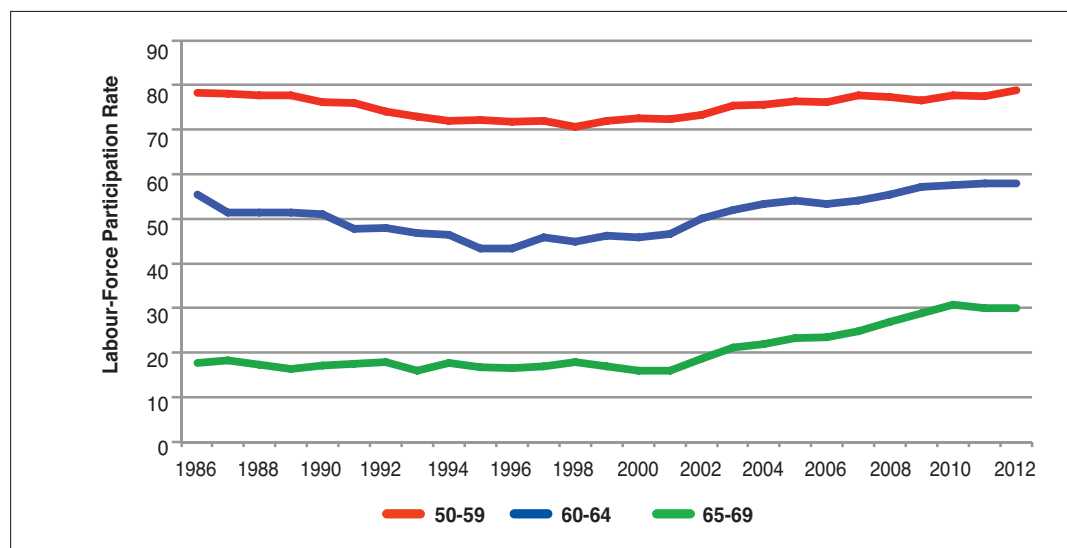
⁸ Government of Alberta, *Alberta's Occupational Demand and Supply Outlook 2011 – 2021*, <http://eae.alberta.ca/documents/occupational-demand-and-supply-outlook.pdf>.

⁹ A useful critique of approaches to labour-force forecasting can be found in J.C. Herbert Emery, "Alberta's Labour Market Needs to 2015," ISEEE Paper No. 8 of the Alberta Energy Futures Project, University of Calgary, November 2006, <http://www.ucalgary.ca/files/iseee/ABEnergyFutures-08.pdf>.

¹⁰ The Conference Board of Canada, "From Baby Boom to Labour Crunch: Quebec's Impending Labour Shortage," December 2007, <http://www.conferenceboard.ca/e-Library/abstract.aspx?did=2356>.

dropping back to 1.68 in 2011. With respect to immigration, the assumption was that net international migration would rise gradually from just over 34,000 in 2006 to approximately 54,000 in 2030. By 2011, the net inflow had already risen to approximately 44,000. Participation rates can be difficult to forecast as well. Many earlier analyses underestimated the continuing rise in the participation rates for women. More recently, participation rates for older workers have followed a curious path. The 1990s became the “Freedom 55” decade, with rates for workers 55 and older falling to their lowest levels around the middle of the decade. But as the data in Figure 5 show, just as labour-market analysts were coming to accept this new reality, rates for older workers began to rise sharply and have continued to do so. Especially remarkable is the increase among men 65-69, where the proportion working or seeking work has risen from just 16 per cent in 2000 to 30 per cent in 2012. Is this a temporary response to the recession and the decline in savings that many older workers have experienced? Or is it a more significant shift in behaviour that will outlast economic recovery? This is an important question for forecasters of future labour supply. For example, the Statistics Canada projections referred to above show a difference in the size of the labour force in 2031 of one million workers, depending on whether the projections are based on long-term trends in participation rates (1990-2008) or only more recent trends (1999-2008), which capture the increased rates among older workers.

FIGURE 5: LABOUR-FORCE PARTICIPATION RATES, MALES 55-69 (1986-2012)



Source: Statistics Canada, CANSIM 282-002, yearly averages.

Projecting the growth in the number of qualified workers in particular occupations is, of course, harder than examining the labour force as a whole.¹¹ Historical data on retirement patterns point to a significant outflow of workers in many occupations in the years ahead, though a shift to later retirement may delay the exodus. Most analyses use data on the number of graduates of education and training programs to project the potential number of new entrants. Valuable as these data are, forecasting the proportion of graduates who will seek employment in their area of study is not easy. And it is also true that student choice is sensitive

¹¹ See the analysis in J.C. Herbert Emery, “Labour Shortages in Saskatchewan,” University of Calgary School of Public Policy, *SPP Research Papers* 6, 4 (2013):4-6.

to demand in the marketplace; historical trends in enrollment are not always a good guide to the future. Falling enrollments in education programs in response to the extreme shortage of teaching positions in the elementary and secondary school systems is a good example of this.¹²

If projecting the future supply of workers is challenging, the obstacles on the demand side are even greater. A wide variety of approaches are used and there is not space to review them here; however, all involve judgments about both the macro-economic environment and the shifting fortunes of different industries. A key question regarding the macro-economic future is whether advanced societies are entering a period of slower economic growth. Concern over demographic decline and its consequences, which include high levels of public debt, lead some to argue that rates of growth in the medium term are not likely to match the growth rates that countries like Canada have achieved in recent decades.¹³ The lower rates of growth in Japan and many European countries, which are further along in the process of population aging than Canada or the United States, provide some support for this view. Slower economic growth, of course, would translate into reduced demand for labour.

Perhaps the most difficult element of labour-market forecasting involves the demand for workers in particular occupations and industries. In projecting future demand, analysts almost invariably draw on recent historical data showing growth or decline in the industry or occupation under study. The data may involve employment trends or such indicators of demand as trends in spending by individuals or businesses on products or services. Future growth or decline is projected on the basis of the growth of the overall economy and the share of the economy accounted for by the sector in question. In the short term, these models can produce very useful forecasts.¹⁴ But the rapid pace of change in the international and national economy makes longer-term forecasting very difficult. Improvements in technology can make occupations obsolete in short order; indeed, labour shortages often propel investment in new technologies to reduce the need for high-cost labour. Moreover, forecasts that point to shortages in certain industries or occupations may constitute signals that will alter the future by encouraging people to move into growing areas and abandon areas of potential surplus.

What can we conclude then about labour shortages in the Canadian economy? As Canada emerges from the great financial crisis, it seems clear that important sectors of the Canadian economy are struggling to fill vacancies in key positions. This is a pressing issue not only for businesses looking to hire, but for the economy as a whole. At the same time, there is no evidence of a general labour shortage in the Canadian economy that requires dramatic efforts to increase the supply of labour. The longer-term picture is harder to evaluate. Canada will certainly face a decline in the rate of labour-force growth as the baby boom generation retires, but this is unlikely to result in a general labour shortage. Rather, the country is likely to face two on-going challenges in the labour market. First, like other advanced economies, Canada will need to compete for top talent, especially in management, science and technology.¹⁵

¹² Moira MacDonald, "Way too many teachers," *University Affairs*, November 7, 2011, <http://www.universityaffairs.ca/way-too-many-teachers.aspx>.

¹³ For a good overview of the issues, see David E. Bloom, David Canning and Gunther Fink, "Implications of population ageing for economic growth," *Oxford Review of Economic Policy* 26, 4 (2010): 583-612.

¹⁴ Among the most sophisticated approaches is that used by the U.S. Bureau of Labor Statistics. A succinct summary of the methodology is available at http://www.bls.gov/emp/ep_projections_methods.htm. Information on the Canadian Occupational Projection System, which adopts a similar approach, is available at <http://www23.hrsdc.gc.ca/1.3bd.2t.1ils@-eng.jsp>.

¹⁵ The recent departure of Bank of Canada governor Mark Carney to take up the position of governor of the Bank of England illustrates the international competition for talent in crucial positions in modern economies.

Second, as sectors of the economy rise and fall, there are likely to be temporary shortages in various industries. These are both important concerns, but the strategies needed to respond to these challenges are different from what might be required in the case of a general labour shortage.

Before looking at possible responses to current and future skills shortages, a brief comment is needed on arguments in favour of more rapid growth in the population and labour-force. For supporters of this view, it is not a case of simply responding to current or future labour shortages, but rather following a strategy that would allow Canada to expand its power and influence in the world. These arguments are in line with what Denton and Spencer describe as the “ought to be” view of labour-market demand. In some ways, they echo the views of Sir Clifford Sifton and Sir Wilfrid Laurier who saw a bright future for Canada based on a much larger population. A significant increase in Canada’s population would bring with it greater growth in the overall size of the economy and might increase Canada’s influence in the global system, produce more Olympic medal winners and maybe even a few more NHL franchises. It would likely also bring substantial challenges for the country in integrating very large numbers of newcomers, the great majority of whom would choose to settle in the major urban areas.¹⁶ And there is no guarantee that this growth would lead to an increase in the standard of living for Canadians. While a healthy debate on this topic would be beneficial, in the remainder of this paper we will focus more narrowly on the issue of skill shortages and how Canadian society might make better use of a variety of strategies to respond to current and future needs in the workforce and improve labour-force outcomes for both native-born and new Canadians.

RESPONDING TO CANADA’S LABOUR-MARKET NEEDS

Canada needs a labour-force strategy that will respond to both the needs of employers for skilled and productive employees, and to workers, native-born and foreign-born, seeking good jobs. Yet when the issue of labour shortages is raised, the discussion usually moves quickly to immigration policy. Immigration does indeed play a critical role in Canada’s labour-market strategy, and its importance will grow in the future as the rate of natural population increase declines and immigration comes to account for almost all of Canada’s labour-force growth.¹⁷ But immigration is not the only issue that needs to be addressed if Canada is to respond to labour-force needs and make effective use of its human resources. Canada needs to make more effective use of its homegrown human resources. Not doing so exacerbates the problems faced by employers and adds to the fiscal pressure on governments through higher costs for social programs and reduced tax revenues. In the section that follows, we first address some of the critical issues in immigration policy and then examine impediments to more effective use of the native-born labour force in responding to the needs of the economy.

¹⁶ It should also be noted that a significant increase in Canada’s population would not be easy to achieve. Even under Statistics Canada’s high-growth scenario for growth, which assumes an increase in the immigration rate to 9.0 immigrants per 1,000 residents, equal to the highest rate Canada has experienced since 1991, Canada’s population would rise to almost 50 million rather than 45 million under the medium set of assumptions. See Statistics Canada, “Population Projections for Canada, Provinces and Territories,” <http://www.statcan.gc.ca/pub/91-520-x/91-520-x2010001-eng.htm>.

¹⁷ While it is true the labour force would begin to decline in the absence of immigration, projections show that approximately 80 per cent of new labour-market entrants in 2020 will be Canadian school-leavers. See Stan Kustec, “The role of migrant labour supply in the Canadian labour market,” Citizenship and Immigration Canada, June 2012, <http://www.cic.gc.ca/english/resources/research/2012-migrant/documents/pdf/migrant2012-eng.pdf>, p. 10.

Immigration and the Canadian Labour Market

Recruiting needed labour has always been an important element of Canada's immigration strategy. From the drive to settle the West in the late 19th and early 20th century, to the efforts to boost the country's industrial base after the Second World War, labour-market needs have shaped Canadian immigration policy. To be sure, other goals have been important as well, including family reunification and refugee settlement, but attracting immigrants who can succeed in the country while responding to the needs of the Canadian economy has been a driving force in the formation of immigration policy. The basis of Canada's current immigration policy was established in 1960s when quotas for immigrants based on national origin were eliminated and a points system to assess independent immigrants seeking to enter the Canadian labour force was established, and new guidelines developed for the admission of family-class migrants.¹⁸ The points system gave weight to such characteristics as education, occupation, work experience, language ability, and age. The goal, of course, was to identify potential immigrants who were likely to succeed quickly in Canada's economy. Another important feature of the Canadian system, introduced in the Immigration Act of 1977, gave the federal immigration minister the authority to establish annual targets for immigration.¹⁹ The purpose of this provision was to regulate the flow of migrants into the country in accord with fluctuations in the business cycle. Targets were increased in periods of strong economic growth and reduced with the outbreak of recessions.

Important elements of the policies that were established in the '60s and '70s remain in place today, but other aspects of the system have evolved over time in response to both changes in philosophy and empirical evidence establishing the success of various initiatives. Excellent summaries are available that catalogue the shifts in policy that have occurred in recent years;²⁰ in this paper, we focus on three issues of immigration policy that have particular relevance for the question of labour shortages. They are:

1. The optimum target for admissions to Canada.
2. The best means of assessment for applicants for admission.
3. The locus of decision-making on the admission of immigrants.

SETTING APPROPRIATE TARGETS FOR ADMISSION

Successive Canadian governments have struggled with the challenge of setting targets for immigrant admissions. Canada benefits from being in a situation where the demand for admission far exceeds the number of places made available, and the government is faced with the problem of determining how many of those seeking to come to the country will be granted admission. No single principle has driven government thinking on an appropriate level of

¹⁸ The most comprehensive discussion of immigration policy in this period remains Freda Hawkins, *Canada and Immigration: Public Policy and Public Concern*, second edition (Kingston and Montreal: McGill-Queen's University Press, 1988).

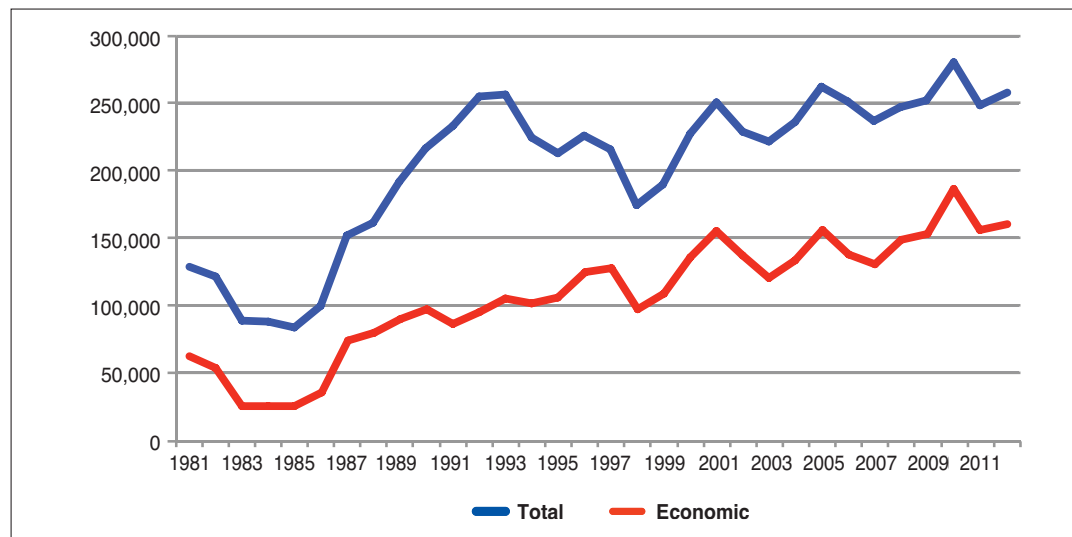
¹⁹ Roderic Beaujot and Kevin McQuillan, *Growth and Dualism: The Demographic Development of Canadian Society* (Toronto: Gage Publishing, 1982): 98.

²⁰ Charles M. Beach, Alan G. Green, and Christopher Worswick, *Toward Improving Canada's Skilled Immigration Policy: An Evaluation Approach*, C.D. Howe Institute, Policy Study 45, 2011; Garnett Picot and Arthur Sweetman, "Making it in Canada: Immigration Outcomes and Policies," Institute for Research on Public Policy Study No. 29, April 2012.

immigration; rather, a variety of factors influence ministers in their decision on an appropriate target. Business and immigrant communities generally favour higher targets as do spokespersons for refugee and humanitarian organizations. Labour groups have at times expressed concern, but more recently have been supportive of immigration generally, though they remain critical of elements of Canada's current policies.²¹ Governments are conscious, however, of stoking anti-immigration sentiments among the public. As the current immigration minister, Jason Kenney, has noted, government must be careful to retain popular support for immigration and, while Canadians are generally supportive of immigration, few favour an increase in the number of admissions.²²

The data in Figure 6 show that total admissions to Canada increased significantly in the late 1980s, reaching a high of just over 250,000 annually in the early '90s. The number admitted declines somewhat in the '90s before returning to the 250,000 range at the beginning of the century, and remaining close to that level since. Increasing concern about the slowing rate of population growth in Canada and the consequent aging of the population, evident in a series of reports commissioned by government in the 1980s, provided support for increasing the numbers admitted.²³

FIGURE 6: PERMANENT RESIDENTS ADMITTED TO CANADA (1981-2012)



Source: Citizenship and Immigration Facts and Figures 2011.

²¹ Labour has been especially critical of the Temporary Foreign Worker Program. See, for example, Ken Georgetti, "Government changes victimizing migrant workers," *Saskatoon Star Phoenix*, May 18, 2012, <http://www.canadianlabour.ca/news-room/editorials/government-changes-victimizing-migrant-workers>.

²² The Honourable Jason Kenney, "Address to the Competition for Global Talent Immigration Conference," Calgary Alberta, June 28, 2012, <http://www.cic.gc.ca/englishH/departement/media/speeches/2012/2012-06-28.asp>. See the analysis of public opinion data in Stuart Soroka and Sarah Robertson, "A literature review of Public Opinion Research on Canadian attitudes towards multiculturalism and immigration, 2006-2009," Citizenship and Immigration Canada, 2010, <http://www.cic.gc.ca/english/pdf/research-stats/2012-por-multi-imm-eng.pdf>.

²³ Charles M. Beach, Alan G. Green, and Christopher Worswick, *Toward Improving Canada's Skilled Immigration Policy: An Evaluation Approach*, 2011: 12.

During the 1990s, the Liberal government informally set one per cent of Canada's population as an objective for immigrant admissions. There was no clear rationale for why the one-per-cent target was the right one, but it did indicate support from the government of the day for higher immigration than Canada had seen for some time. The goal never found its way into the annual reports to Parliament that establish the targets for immigration, however, nor did the number admitted ever reach the one-per-cent level. The Conservative government that came to power in 2006 has continued to set relatively high targets for annual admissions. The proposed range for 2013 is from 240,000 to 265,000, or just over 0.7 per cent of the Canadian population.²⁴

Two points can be made about the pattern of admissions. First, the increasing stability in annual targets reflects an important change in the Canadian government's thinking on immigration. Prior to the changes introduced in the 1980s, there was a conscious effort to adjust targets in line with prevailing economic conditions; admissions would be raised in good economic times when unemployment was low and dialed back when the country entered recession. But the system was thought to be too slow to respond to shifts in the economy. By the time targets were ratcheted upward and newcomers admitted, labour shortages were already evident, while larger numbers continued to enter the country after recessions had begun. Setting reasonable targets that made sense for the longer term was determined to be a more effective strategy.

Second, there has been an important increase in the proportion of new admissions belonging to the economic class. From less than one-third in the early '80s, the proportion rose to 45 per cent in 1990, almost 60 per cent in 2000, and reached 66 per cent in 2010. As a result, the number of economic-class immigrants admitted rose from just over 35,000 in 1986 to 125,000 in 1996 and to 160,000 in 2012. As persons admitted in the economic class are more likely to enter the labour force, the shift to a greater emphasis on economic migrants has significantly increased the number of new labour-market entrants.²⁵

The focus so far has been on the numbers admitted as permanent residents of Canada. It is important to note that Canada has moved in recent years to increase significantly the number of admissions under the Temporary Foreign Workers Program (TFWP). From just 65,000 entries in 1984, the number of admissions increased to 100,000 in 1998 and to 213,000 in 2012.²⁶ While these workers do not have the right to remain in Canada permanently, they do allow employers to fill gaps in the work force, and the government has been making it easier for these workers to apply for permanent-residence status in the country. Concern has been expressed about the conditions experienced by these workers and the impact of this migration flow on wages for Canadian workers.²⁷ Gross and Schmitt argue that the increase in admissions

²⁴ Citizenship and Immigration, "Notice – Supplementary Information for the 2013 Immigration Levels Plan," November 5, 2012, <http://www.cic.gc.ca/english/departement/media/notices/notice-levels2013.asp>.

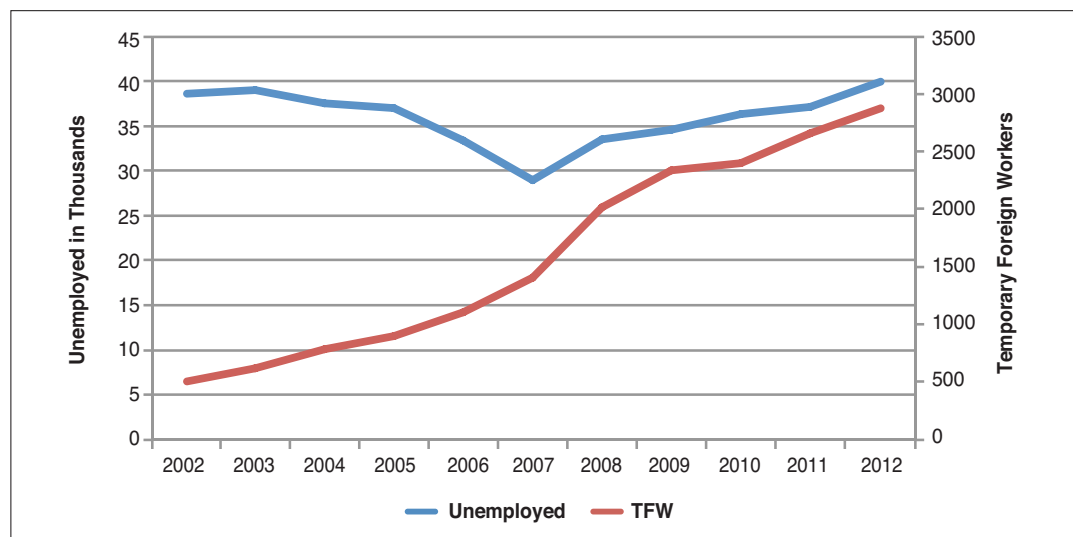
²⁵ It should be noted that the number admitted in the economic class includes the dependants of the primary applicant. Thus the number destined to the labour force is far smaller than the number admitted in the class. In recent years, approximately 130,000 immigrants per year have entered the labour market. See Stan Kustec, "The role of migrant labour supply in the Canadian labour market," June 2012: 12.

²⁶ Citizenship and Immigration Canada, *Facts and Figures*, <http://www.cic.gc.ca/english/resources/statistics/facts2012-preliminary/index.asp>

²⁷ Canadian Labour Congress, "Canada's Temporary Foreign Worker Program: Model Program or Mistake?," April 2011, <http://www.canadianlabour.ca/sites/default/files/pdfs/model-program-or-mistake-2011-en.pdf>.

through the program has exacerbated regional differences in unemployment and impeded the adjustments that might otherwise have occurred.²⁸ It is puzzling, indeed, to see a significant influx of relatively low-skill temporary workers into regions with high rates of unemployment. Figure 7 shows the number of unemployed in New Brunswick from 2002 to 2012 as well as the number of foreign workers in the province on December 1 of each year. Aside from a dip in the years prior to the beginning of the recession, the number of unemployed has remained fairly constant between 35,000 and 40,000. Despite this, the number of temporary foreign workers has grown steadily, and more than 2,800 foreign workers were recorded as present in the province on December 1, 2012. While the focus of the debate about immigration and the labour shortage usually focuses on permanent admissions, the growth of the Temporary Foreign Worker Program makes it imperative that it be considered in any analysis of the usefulness of immigration as a solution for the country's labour needs.

FIGURE 7: NUMBER OF UNEMPLOYED PERSONS AND NUMBER OF TEMPORARY FOREIGN WORKERS, NEW BRUNSWICK (2002-2012)



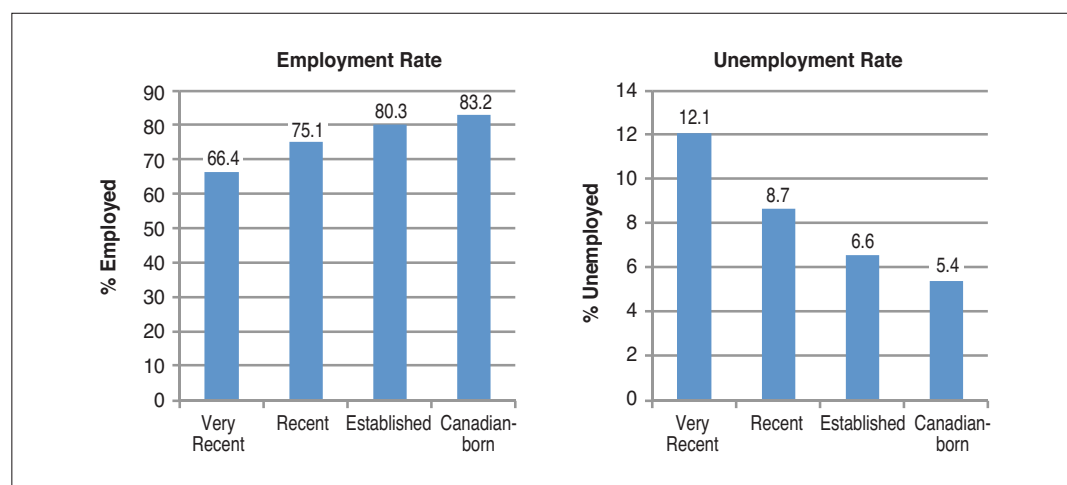
Is the current government target of approximately 250,000 immigrants per year the right one? Has the country become too dependent on the Temporary Foreign Worker Program to respond to the needs of employers? The balance of competing interests that seek to shape immigration policy makes it difficult to answer these questions. Many interest groups would like to see a higher target, so as to increase the supply of new workers, allow for more family members to join loved ones in Canada, and provide a chance at a better life for refugees. Research provides little basis for determining the optimum number that would fuel faster economic growth or address skill shortages without harming the employment prospects or earnings of native-born Canadians. Moreover, as mentioned above, some of the arguments in favour of higher immigration are built on goals such as raising Canada's profile in the world, goals that may clash with more specific outcomes, such as reducing unemployment. Not surprisingly, then, governments have tried to find a middle path that provides something for everyone when they establish immigration targets. Before commenting on an appropriate target, it is important to review the evidence on the experiences of recent cohorts of immigrants to Canada.

²⁸ Dominique M. Gross and Nicolas Schmitt, "Temporary Foreign Workers and Regional Labour Market Disparities in Canada," *Canadian Public Policy* (2012) 38-2: 233-263.

ESTABLISHING CRITERIA FOR ADMISSION AND PROMOTING IMMIGRANT SUCCESS

If Canada were suffering a general labour shortage, one would expect that immigrants would rapidly find work and earn wages roughly equivalent to Canadian-born workers with similar characteristics. Yet recent immigrants are having considerable difficulty integrating into the Canadian labour market. Figure 8 illustrates the employment struggles of immigrants, showing employment and unemployment rates for the Canadian-born and for immigrants by period of arrival.²⁹ The data are for those in the prime-working ages, 25 to 54, and underscore the problems new immigrants are having finding employment. Even for those who have been in the country for five to 10 years, unemployment rates are higher and participation rates are lower. Beach et al. note that among the best-educated immigrants, the unemployment rate is also markedly higher than among Canadian-born workers with advanced education.³⁰ Extensive analysis of data on earnings shows similarly disappointing results. Successive cohorts of new arrivals are experiencing large gaps between their earnings on entry into the labour market and those of Canadian-born workers, and the gap has been growing larger for more recent cohorts.³¹ Not surprisingly, then, poverty rates among recent immigrants have been rising as well.³² The large deficit in the earnings of recent immigrants on arrival means that the time required to “catch up” to Canadian-born workers has grown as well.

FIGURE 8: EMPLOYMENT AND UNEMPLOYMENT RATES FOR IMMIGRANTS AND CANADIAN-BORN, AGES 25-54 (2012)



Source: Statistics Canada, CANSIM 282-102, 2011 average.

²⁹ Very recent immigrants are those who arrived in the previous five years, recent immigrants have arrived five to 10 years prior, and established immigrants have been in the country at least 10 years.

³⁰ Charles M. Beach, Alan G. Green, and Christopher Worswick, *Toward Improving Canada's Skilled Immigration Policy: An Evaluation Approach*, 2011: 32.

³¹ David Green and Christopher Worswick, “Entry Earnings of Immigrant Men in Canada: The Role of Labour Market Entry Effects and Returns to Foreign Experience,” in *Canadian Immigration: Economic Evidence for a Dynamic Policy Environment*, ed. T. McDonald, E. Ruddick, A. Sweetman, and C. Worswick (Montreal and Kingston: McGill-Queen's University Press, 2010).

³² Garnett Picot, Y. Lu, and F. Hou, “Immigrant Low-Income Rates: The Role of Market Income and Government Transfers,” *Perspectives on Labour and Income* 12 (2010): 13-27.

Why are recent immigrants experiencing these problems in the Canadian labour market? We do not have all the answers, but a wealth of research has identified several key factors:

- The first issue is the difficulty for many immigrants in transferring human capital developed outside the country to the Canadian labour market. While previous generations of immigrants were rewarded for work experience gained in their homelands, this is no longer the case. The returns to education gained abroad have declined as well. Much of this change is attributable to a shift in the source countries for Canadian immigrants. Newcomers from countries that are similar to Canada socially and economically, such as the U.S and the U.K., are rewarded for their education and experience, while those from countries in Asia, Latin America, and Africa are not. As the share of immigrants arriving from “non-traditional” sources has grown, the difficulties encountered by new immigrants have grown as well.³³
- A second problem is the large and perhaps growing importance of language skills in allowing for immigrant success. The changing nature of the economy has increased the proportion of jobs for which proficiency in both oral and written communication is important. Although economic-class immigrants are evaluated on the basis of their language knowledge, and over half of all immigrants admitted between 1980 and 2001 are fluent in one or both of Canada’s official languages, their proficiency falls well short of that achieved by those born in the country.³⁴
- A third issue, to which we shall return shortly, is the health of the labour market into which immigrants have entered. The decline in the value of foreign work experience has meant, in effect, that most immigrants are treated like new entrants in the job market. And the situation for new entrants, whether Canadian or foreign-born, has been very difficult. Entry-level wages have fallen by up to 20 per cent since 1980, and this has affected immigrants as well as young Canadian-born workers.³⁵

The problems encountered by recent cohorts of immigrants, even those evaluated through the points system and admitted under the Federal Skilled Worker Program (FSWP), are causing a needed rethinking of Canadian immigration policy. Among the most important changes that are emerging is a shift in the locus of decision-making about immigrant admissions. We turn to that topic now.

³³ See the excellent summary in Garnett Picot and Arthur Sweetman, “Making it in Canada: Immigration Outcomes and Policies,” April 2012.

³⁴ Aneta Bonikowska, David A. Green, and W. Craig Riddell, “Literacy and the Labour Market: Cognitive Skills and Immigrant Earnings,” *International Adult Literacy Survey*, Statistics Canada, Catalogue No. 89-552-M 020; Charles M. Beach, Alan G. Green, and Christopher Worswick, *Toward Improving Canada’s Skilled Immigration Policy: An Evaluation Approach*, 2011, p. 42.

³⁵ David Green and Christopher Worswick, “Entry Earnings of Immigrant Men in Canada: The Role of Labour Market Entry Effects and Returns to Foreign Experience” (2010).

ESTABLISHING THE MOST APPROPRIATE LOCUS OF DECISION-MAKING FOR THE ADMISSION OF IMMIGRANTS

Although immigration is a constitutional responsibility shared between the federal and provincial governments, the federal government has long played the lead role in the administration of Canada's immigration system.³⁶ Gradually, however, provincial governments and, indeed, employers are coming to play a more direct role in the system. Although the provinces had played a role in the system previously, the Canada-Quebec Accord of 1991 formalized a larger role for Quebec in the determination of immigration levels and the selection of immigrants wishing to reside in Quebec. The criteria for selection in Quebec largely mirror those for the national system, though with a somewhat different distribution of points and, unsurprisingly, an emphasis on attracting applicants with a greater knowledge of French. A consequence of this has been a difference in the countries of origin between those intending to settle in Quebec versus the rest of the country. While Asian nations are at the top of the list for other parts of the country — the Philippines, China and India, in particular — Morocco and Algeria led the way in Quebec in the period 2007-2011.³⁷

Perhaps of greater consequence for immigration patterns has been the development of the Provincial Nominee Program (PNP). Concern in many parts of the country over the concentration of immigrants in the three largest metropolitan areas led to the introduction of a new route to immigration that allowed the provinces a more direct role in the selection of immigrants. Aimed at attracting skilled immigrants intending to enter the labour force, the program allows potential immigrants to apply directly to the province of intended settlement for admission. Although the focus is on economic immigrants rather than family or refugee-class applicants, the programs do not use the points system employed for immigrants under the FSWP. The hope is this greater flexibility will make it easier to attract migrants who might otherwise be drawn to Canada's largest cities, and to allow provinces to fill specific labour needs with workers who might not qualify under the existing FSWP criteria. Manitoba was the trailblazer in establishing the PNP, but other provinces have followed, and the program has grown significantly. In 2001, less than one per cent of economic immigrants were admitted under the PNP; by 2011, the proportion had risen to almost 25 per cent.³⁸ Some analysts have expressed concern that the different criteria used by the provinces, and the desire to fill current shortages in the labour market, may lead to the admission of immigrants who are less prepared to succeed over the long term in Canada. Preliminary evidence suggests immigrants entering through the PNP are off to a good start, but the short time frame available to observe the fortunes of those admitted under the program is reason for caution.³⁹ Although immigrants

³⁶ See the discussion in Freda Hawkins, *Canada and Immigration: Public Policy and Public Concern*, 1988: 177-200; and Penny Becklumb, *Immigration: The Canada-Quebec Accord*, Library of Parliament, Parliamentary Information and Research Service, Background Paper 252E, October 2008, <http://www.parl.gc.ca/Content/LOP/researchpublications/bp252-e.htm>.

³⁷ Quebec, Institut de la statistique, http://www.stat.gouv.qc.ca/donstat/societe/demographie/migr_t_poplt_imigr/603.htm.

³⁸ Citizenship and Immigration, Facts and Figures 2011, <http://www.ci.gc.ca/english/resources/statistics/facts2011/permanent/02.asp>.

³⁹ Tom Carter, Manish Pandey, and James Townsend, "The Manitoba Provincial Nominee Program: Attraction, Integration and Retention of Immigrants," Institute for Research on Public Policy Study No. 10, 2010, http://www.irpp.org/pubs/IRPPStudy/IRPP_study_no10.pdf.

admitted through the PNP are not any more likely to leave the province that admitted them than immigrants admitted under the FSWP, rates of out-migration for PNP immigrants to Quebec and the Atlantic provinces remain relatively high.⁴⁰

Another important new element in the system is the introduction of the Canadian Experience Class (CEC) for applicants who have been working or studying in the country. The program targets international students who have graduated from a Canadian university or college and have at least one year of work experience in a skilled position in a managerial, professional, or technical occupation, as well as those working in Canada under the TFWP. In contrast to those admitted in other categories, those applying under the Canadian experience class must apply while working in Canada. The hope is that those who have both studied and worked in Canada will be more easily integrated into the workforce. Questions about the quality or relevance of schooling and work experience obtained in other countries are obviated by focusing on those who have studied and worked in Canada.

The introduction and growth of the PNP and CEC have begun to transform Canadian immigration patterns. Both programs focus on permanent immigrants to Canada. As noted above, the federal government has significantly expanded the TFWP. Those admitted under the program must have a job to come to; thus, the growth of the program has increased the ability of employers to select those who will come to work in Canada. Rather than relying on government to identify those considered a good fit, leaving employers to select from the pool of those granted admission, employers can play a more active role in finding workers to fill crucial vacancies. The program also provides an avenue for those in Canada on a temporary basis to apply for permanent-resident status, particularly now that the Canadian Experience Class has been established. To be sure, the path is largely restricted to those who are working in skilled occupations, but it may well allow for entry of some applicants who would not have qualified for admission under either the FSWP or PNP.

IMMIGRATION AND THE LABOUR MARKET: ARE WE ON THE RIGHT TRACK?

Immigration is a hotly contested topic in Canada and immigration policy continues to evolve in response to pressure from a wide range of interest groups as well as empirical evidence on the successes and failures of the system. Despite the shortcomings of the system and the ongoing challenges of administering a complex policy, any fair reading of the evidence suggests Canada's approach to immigration has been remarkably successful and has brought benefit to the vast majority of newcomers and to Canadian society.⁴¹ The country has consistently had one of the highest rates of immigration among advanced industrialized societies and yet has

⁴⁰ Manish Pandey and James Townsend, "Quantifying the Effects of the Provincial Nominee Programs," *Canadian Public Policy* 37, 4 (2011): 495-512.

⁴¹ This view is not universally accepted. Some critics of Canada's approach focus on the fiscal costs associated with immigration and the potential problems posed by a failure to integrate newcomers. See, for example, *The Effects of Mass Immigration on Canadian Living Standards and Society*, edited by Herbert Grubel, The Fraser Institute, 2009. There is also concern about the poorer outcomes for highly educated immigrants in Canada as compared to the United States. See Aneta Bonikowska, Feng Hou, and Garnett Picot, "A Canada-U.S. Comparison of Labour Market Outcomes among Highly Educated Immigrants," *Canadian Public Policy* 37, 1 (2011): 25-48.

avoided the social conflict that immigration has produced in many other nations. Public opinion surveys continue to show significant support for immigration while also reflecting ongoing concerns about increasing the numbers admitted and about the challenges of successfully integrating newcomers. In contrast to the situation in Europe and even the United States, there are no political parties expressing opposition to continued high levels of immigration.

As noted above, economic outcomes for immigrants have declined for recent cohorts. Employment rates and earnings have slipped, and this is a legitimate source of concern. But the situation is far from disastrous. In comparison to the fate of immigrants in other advanced economies, immigrants to Canada do well and profit from many other aspects of living in Canada. For many coming from repressive or war-torn nations, the peace and security Canada offers is a huge gain. Perhaps most importantly, the tremendous success of the children of immigrants in the Canadian educational system underlines the value of Canada's approach to immigration for both immigrants and the host society.⁴²

While the overall success of Canadian immigration policy is clear, the concerns of employers regarding labour shortages and the difficulties encountered by recent immigrants point to the need to rethink aspects of Canada's immigration policy. As Minister Kenney has recently argued, Canada has operated what amounts to a supply-driven immigration model. The strategy has been to bring in a relatively large supply of new workers possessing certain characteristics, such as high levels of education and work experience thought to be associated with success in the labour market, and wait for employers to hire them. As the evidence reviewed above suggests, this approach has had mixed success. Employers have viewed recent cohorts of immigrants as equivalent to new entrants to the workforce regardless of the experience they may have accumulated in their home countries. As such, it has placed them in competition with young, native-born Canadians for entry-level positions. In response, governments have tried to adjust the selection criteria for new immigrants admitted under the FSWP. Credit for foreign work experience has been scaled back and a new emphasis has been placed on language skills. More emphasis will now be placed on evaluating the quality of the educational credentials and language skills of applicants. These are positive developments and an admirable example of a case where empirical research has been not only considered, but acted upon by government.⁴³ At the same time, several initiatives suggest a more profound change in policy regarding economic immigrants, with a shift to a more demand-based system, one that allows employers to play a larger role in the selection process. That is the common element running through perhaps the three most significant innovations in Canadian immigration policy in recent years: the introduction of the PNP, the CEC, and the significant expansion of the TFWP. In each case, the ability of the immigrant to enter or remain in the country is dependent on securing employment. Indeed, there are now plans to grant "pre-approval" to applicants under the FSWP, but admission to the country would be contingent on being offered a position by employers who could review the file of approved applicants.⁴⁴

⁴² Garnett Picot and Arthur Sweetman, "Making it in Canada: Immigration Outcomes and Policies," 2012: 12-16.

⁴³ The government has very recently added another new element: the Federal Skilled Trades Program, designed to make it easier for skilled-trades workers to gain admission. Up to 3,000 applicants will be considered annually in trades identified as in demand. <http://www.cic.gc.ca/english/department/media/releases/2013/2013-01-02.asp>.

⁴⁴ The Honourable Jason Kenney, June 28, 2012.

Given the difficulty that many immigrants who entered under the FSWP have had in finding work in line with their credentials and experience, the move towards a more demand-based system makes sense. The worry, however, is that a narrow focus on filling an available job opening may attract immigrants who prosper in the short term, but encounter greater obstacles over time. Moreover, their more limited human and social capital may mean their children do not achieve the same level of success enjoyed by children of immigrants admitted under the FSWP.⁴⁵ It is ironic that as the government has moved to realign the points system to give greater weight to elements that have been shown to be important indicators of success, such as language, the fastest-growing part of the immigration system — the PNP — does not assess applicants using the points system. And while entrants under the TFWP do not have the right to remain in Canada permanently, the expansion of the CEC is likely to provide a pathway for many to become permanent residents of Canada. These applicants must provide evidence of language proficiency but they are not assessed on the basis of educational criteria, though the restriction to skilled occupations would suggest that most would have a significant level of education or training.

While Canada is not facing a general labour shortage, the country is experiencing skill shortages in important areas and intense competition for top talent. Immigration has an important role to play in helping the country respond to these challenges, but this does not imply the country needs a significant boost in the annual intake of immigrants. Instead, we need to continue to refine the system to admit newcomers better prepared not only to fill the critical vacancies in the Canadian labour market, but also to succeed in the long term as citizens of the country. The current government has instituted extensive changes to policy, many of which address key issues that have been raised by employers and by academic researchers. Arguably, what is most needed now is a period of time to assess the effects of the changes that have been made. As this is done, I would argue, it makes sense to:

- ***Hold the immigration rate close to the current rate of approximately 0.7 per cent of population.***

There is no evidence the country would benefit from higher numbers; what is important for employers and immigrants is a better fit between the needs of employers and the skills of those admitted. Some suggest increasing the proportion admitted in the economic class. It is true that economic-class migrants have more success in the labour market. But given the pressures to admit family-class migrants and refugees, and the government's limited ability to reduce the number admitted in these two categories, a further increase in the proportion of economic immigrants would be difficult to achieve without an increase in the overall number admitted. At this point in time, such an increase is not likely to be helpful.

⁴⁵ Jeffrey G. Reitz, "Closing the Gaps Between Skilled Immigration and the Canadian Labour Markets: Emerging Policy Issues and Priorities," Working Paper, University of Toronto, March 2007, <http://www.utoronto.ca/ethnicstudies/ClosingGaps.pdf>.

- **Consider returning to the strategy of linking admissions to the business cycle.**

While the 0.7-per-cent target appears reasonable over the medium term, there might be significant benefits for immigrants and the host society if Canada returned to a strategy of trimming targets in recessions and increasing the numbers admitted in more buoyant economic times.⁴⁶ It is clear that immigrants admitted in times of high unemployment not only suffer on arrival but the negative effects can continue for a long period of time. Improvements in the processing of applications should enable the system to respond more rapidly to shifts in the economic climate than was true in the '80s when Canada moved away from this strategy.

- **Develop consistent national standards for education and language ability for all admitted in the economic class.**

With the introduction of the PNP and CEC, there are now a variety of pathways for economic-class immigrants to attain permanent-resident status. The consensus of research on outcomes for immigrants admitted under the FSWP is that education and language ability are critical determinants of success. While shifting some of the responsibility for immigrant selection to the provinces and employers has clear benefits, it is also important to realize that granting permanent residency entails a long-term commitment by the country as a whole. Those admitted are free to move among jobs and regions and their children will form part of the next generation of Canadian workers. Introducing national standards in these key areas would be a reasonable way to increase the odds of long-term success for immigrants and their children.

- **Reduce the number of entries under the Temporary Foreign Worker Program.**

It is not surprising that employers desperate to fill open positions have made enthusiastic use of the TFWP. But the program has attracted criticism as well. The influx of low-skill workers into regions with high rates of unemployment is a cause for concern. Labour groups fear the program is being used to push down wages. Economists argue that the program inhibits normal labour-market adjustment, which would encourage Canadian workers to fill positions in demand. Governments should worry that unemployed workers are not taking up these jobs and explore ways to encourage Canadian workers to fill openings. The country is not likely to benefit from a growing class of low-paid, temporary residents. Continued growth in their numbers will almost certainly lead to pressure to extend the duration of their employment or create paths to permanent residence.

⁴⁶ See Charles M. Beach, Alan G. Green, and Christopher Worswick, *Toward Improving Canada's Skilled Immigration Policy: An Evaluation Approach*, 2011: 103.

Increasing Employment Rates for Native-Born Workers

DEVELOPING A MORE MOBILE LABOUR FORCE

The persistence of high unemployment in many parts of Canada at a time when employers elsewhere are faced with shortages should lead us to think about ways to increase the mobility of labour. Internal migration has been an important element in easing labour-market imbalances throughout Canadian history. Canada has few barriers to the internal movement of people. Potential migrants need not apply or obtain official approval to relocate. There are credential issues that arise for persons in certain occupations to practise their craft or profession in a different province, but for most of the population no significant impediments exist. Moreover, changes in the cost and availability of transportation and the greater ease and lower cost of communication would seem to make the decision to migrate easier than was true in the past.

Oddly, however, rates of internal migration have been declining in a number of countries. Demographer William Frey, examining the American situation, has referred to this as the “great migration slowdown.”⁴⁷ Although the notion of picking up and starting over in a new place has long been a powerful image in popular American culture, migration rates in the U.S. are the lowest they have been in 50 years. Molloy et al. show declines in both inter-state and inter-country rates of migration in the United States since 1980.⁴⁸

There is evidence of a long-term slowdown in Canadian migration rates as well. Table 1 shows five-year migration rates for all persons five years of age and over, and for persons age 25 to 34 at the time of the census. As is well known, young adults in almost all societies have the highest rates of migration. Thus, it is not surprising that the aging of Canada’s population has contributed to lower rates of migration for the population as a whole. The interprovincial migration rate has fallen by over 40 per cent between 1981 and 2006. But what is striking is the decline that has occurred among young adults as well, with the percentage of those changing their province of residence declining from 8.8 per 100 in 1981 to 6.3 in 2006, a drop of 28 per cent.

TABLE 1. FIVE-YEAR MIGRATION RATES FOR PERSONS PRESENT AT THE LAST CENSUS, 1981-2006.

Year	All Persons five years of age and over		Persons age 25-34	
	Intra-provincial	Inter-provincial	Intra-provincial	Inter-provincial
1981	15.5	5.3	25.3	8.8
1991	16.5	4.1	26.6	6.9
1996	13.9	3.5	24.0	6.3
2001	13.3	3.4	24.0	6.6
2006	12.6	3.0	23.1	6.3

Source: Statistics Canada, Censuses, 1981-2006; Author's calculations.

⁴⁷ William Frey, “The Great American Migration Slowdown: Regional and Metropolitan Dimensions,” The Brookings Institution, 2009, <http://www.brookings.edu/research/reports/2009/12/09-migration-frey#ref-id=8a3a8106111e91f1d0d22115d7bc9490f773299d>.

⁴⁸ Raven Molloy, Christopher L. Smith, and Abigail Wozniak, “Internal Migration in the United States,” Federal Reserve Board, Finance and Economics Discussion Series, 2011-30, 2011, Washington, D.C.

This decline in Canadian rates of migration has occurred despite the significant and enduring differences in the health of the labour market in different regions of the country. Between 1997 and 2012, the unemployment rate for persons aged 25 to 44 has never exceeded six per cent in any of the three Prairie provinces, while it has never been less than six per cent in Quebec and the Atlantic provinces. The data presented in Chart 4 demonstrates the very significant differences in the ratio of job vacancies to unemployed persons across the provinces. Data on average weekly earnings reinforce the point. In 2011, average earnings ranged from \$722 per week in P.E.I. to \$1,039 in Alberta.⁴⁹

The decline in rates of internal migration in the United States and Canada is not easy to explain. There are, to be sure, significant impediments to migration in search of employment. Canada's resource industries move through periods of boom and bust, and potential migrants may be concerned about the security of employment. The substantial distance between areas of high and low unemployment makes moving and visits to family who remain in the province of origin costly. High rates of home ownership in many regions with high unemployment and the continued growth of two-career families raise the cost of migration as well. Perhaps what has been most significant is the remarkable increase in the proportion of young adults residing with their parents. In 1981, only 11.3 per cent of young adults aged 25 to 29 lived in the parental home; by 2011, the figure had risen to 25.2 per cent.⁵⁰ If the cost of residing in the parental home is low, young adults may opt for intermittent employment at low wages rather than incur the costs, material and social, of moving across the country.

Elements of current immigration policies have also been seen as a possible deterrent to migration. As noted above, there is concern that the growth of the TFWP has impeded labour-market adjustment and reduced the incentive for Canadian workers to move to areas of low unemployment.⁵¹ Other elements of Canadian social policies have come in for criticism as well, especially the Employment Insurance system. Particular criticism has been directed at the easier access to the system in regions with high rates of unemployment and provisions to allow seasonal workers to draw benefits on an annual basis. The current government has introduced changes to the system that will make it harder for regular beneficiaries to receive the same level of benefits they have enjoyed in past. However, Day and Winer,⁵² in their exhaustive study of the topic, find little evidence that the structure of the EI program has inhibited movement between Canada's regions. Indeed, they find only very modest effects of policy-related variables such as tax rates and social assistance policies on the propensity to migrate. The effects of fiscal policies are dwarfed by the impact of moving costs and concerns about the stability of employment.

⁴⁹ Statistics Canada, CANSIM Table 281-0027.

⁵⁰ Statistics Canada, "Fifty years of families in Canada, 1961-2011," http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-312-x/98-312-x2011003_3-eng.cfm.

⁵¹ Dominique M. Gross and Nicolas Schmitt, "Temporary Foreign Workers and Regional Labour Market Disparities in Canada," (2012).

⁵² Kathleen M. Day and Stanley L. Winer, *Interregional Migration and Public Policy in Canada* (Montreal and Kingston: McGill-Queen's University Press, 2012). See also Patrick Coe and J.C. Herbert Emery, "The disintegrating Canadian labour market? The extent of the market then and now," *Canadian Journal of Economics* 37, 4 (2004): 879-897.

Governments have few levers to change this situation. New Employment Insurance regulations will push claimants to search more widely for employment, but they will not require workers to undertake long-distance moves. Moreover, there are political sensitivities about the federal government encouraging out-migration from regions of Canada that already experience slower population growth. Nevertheless, it would be helpful for governments and employers to:

- Continue efforts to reduce and eliminate barriers that workers face in securing employment in other provinces.
- Work together on recruitment efforts for workers in areas of high unemployment.
- Explore options to offset the perceived high-cost of migration, which Winer and Day cite as among the largest factors discouraging migrants. In the 1960s, as Canada's universities rapidly expanded, the government granted a two-year tax holiday to foreign academics accepting employment at a Canadian university. A more modest initiative for Canadian workers who move to areas in need of labour would be worth considering.

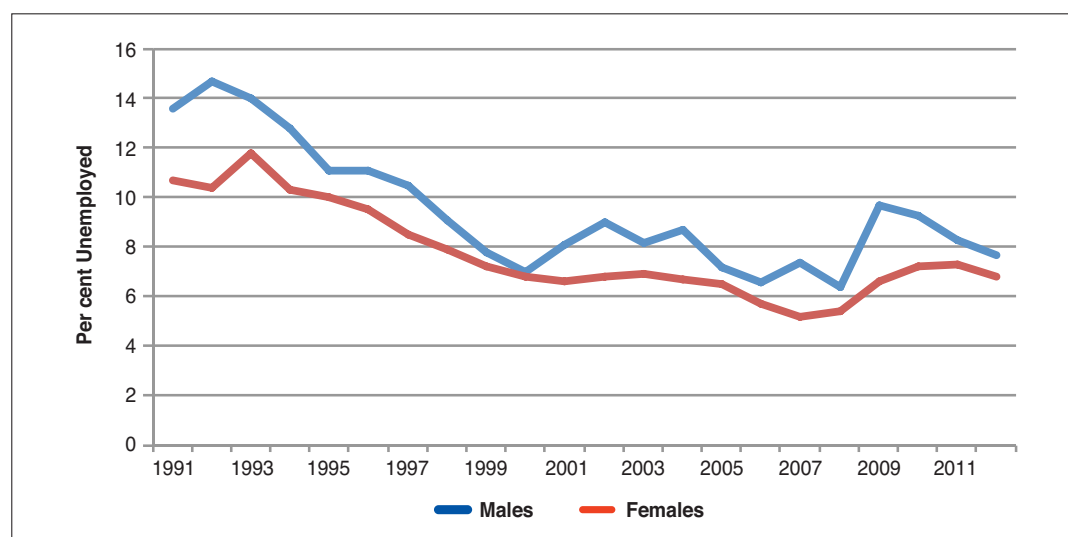
PROMOTING SUCCESS FOR YOUNGER WORKERS

A labour shortage should be good news for young people looking to enter the labour force. Finding work should be easier and wages on the rise. But the evidence on the economic fortunes of young Canadians in recent years provides little support for this view. Data on employment and earnings both indicate that younger workers are struggling to establish themselves in the labour force.

Figure 9 shows the unemployment rates for males and females aged 25 to 29.⁵³ Not surprisingly, the trend over time is consistent with the health of the overall economy. The severe recession of the early '90s saw unemployment rates for men and women exceed 10 per cent before falling to around seven per cent at the start of the new century. The dot-com crash contributed to the upswing in the rate for men in the early years of the first decade of the century, while the rate for women moved gradually downward. The recession of 2008 produced another sharp increase for men, with the rate peaking at 9.7 per cent in 2009. Women, too, experienced an increase, though their greater involvement in the public sector somewhat cushioned the effects of the recession on women. Current pressures on government budgets may change this, however. Young men have seen a sharper fall in unemployment since the peak of the recession. In sum, despite growing concerns about skills shortages in Canada, young workers continue to face significant challenges in the labour market.

⁵³ The rate for those aged 15 to 24 is higher, but follows a similar trajectory. Of course, those in the younger age group who are in the labour force are a more select group, as a large proportion of young people are in school full-time and are not seeking employment. For a thorough analysis that presents a more positive slant on the issue, see Certified General Accountants Association of Canada, *Youth Unemployment in Canada: Challenging Conventional Thinking?* (October 2012) http://ppm.cga-canada.org/en-ca/Documents/ca_rep_2012-10_youthunemployment.pdf.

FIGURE 9: UNEMPLOYMENT RATES FOR MALES AND FEMALES 25-29 (1991-2012)



Source: Statistics Canada, CANSIM 282-002, yearly averages.

Perhaps as important is the prevalence of underemployment. The notion of underemployment is more nebulous than that of unemployment, but it most commonly refers to either a more limited involvement in the labour force than an individual desires, or to situations where persons are employed in occupations that do not require the level of education or training they have achieved. Statistics Canada asks part-time workers why they are employed part-time rather than full-time. Part-time employment can be due to voluntary reasons, such as personal preference, school attendance, or family responsibilities, or due to involuntary reasons like an inability to find full-time work. Recent data point to a high proportion of involuntary part-time employment among younger workers. In 2011, 36.9 per cent of part-time workers aged 25 to 44 reported wanting to work full-time, but reported that they were unable to find full-time work.⁵⁴

Measuring “qualitative” underemployment is more difficult, but there is evidence that a significant proportion of young Canadians are working in jobs that do not require the level of education or training they have acquired. Frenette, using data from the National Graduates surveys, reported the incidence of perceived overqualification among 1990 graduates as 30 per cent.⁵⁵ Of course, some young workers take their first jobs at relatively low levels and work their way up after acquiring on-the-job experience. Frenette reports, however, that those who report being overqualified for their positions two years after graduation have a 75-per-cent chance of still being overqualified five years after graduation. A recent report by the Certified General Accountants Association of Canada draws on more recent data and notes that nearly one in four workers aged 15 to 24 with a university degree were employed in jobs that did not require post-secondary education.⁵⁶

⁵⁴ Statistics Canada, CANSIM, Table 282-0014.

⁵⁵ Marc Frenette, “The overqualified Canadian graduate: The role of the academic program in the incidence, persistence and economic returns to overqualification,” *Economics of Education Review* 23, 1(2004): 29-45.

⁵⁶ See Certified General Accountants Association of Canada, *Youth Unemployment in Canada: Challenging Conventional Thinking?* (October 2012).

In light of the findings on unemployment and underemployment, it is not surprising that data on the earnings of young workers are also a cause for concern. Morrisette et al. report that, between 1981 and 2011, “average hourly wages increased by 17% among men aged 45-54, but increased by only 1% among men aged 25 to 34.” The situation was less dramatic among women, but still, the increase for more mature workers was more than twice that experienced by women in the 25 to 34 age group.⁵⁷ It is true that more recently there is evidence of a reversal. Younger men have seen larger earnings gains in recent years. This reflects, in part, the growth of employment in areas such as mining and oil and gas development, industries with relatively high wages and rates of unionization. Whether this reflects a temporary effect related to buoyant commodity markets or a longer-term reversal of a trend, which will favour younger workers, remains to be seen.⁵⁸

The problems faced by young workers are especially disappointing given the rising educational credentials among recent cohorts. While in 1981, only 14.9 per cent of those aged 25 to 34 held a university degree, by 2006 that figure had risen to 28.9 per cent. And more than half of this young cohort had some form of post-secondary diploma or certificate.⁵⁹

The situation for the young in Canada is certainly far better than in many European countries, where unemployment rates for young people reach as high as 50 per cent. But nonetheless, the current generation of young Canadians is having a hard time finding success in the labour market. Not only young people themselves, but society as a whole suffers when the young struggle to establish their careers. High unemployment and underemployment, and low earnings, have meant a later start on the road to independence and, with that, longer co-residence with parents, later marriage, low fertility, higher levels of debt,⁶⁰ and perhaps a reduced ability to save for retirement.

The disappointing results in the labour market for many young people in recent years flow from a variety of forces. Competitive pressure has led many employers to reduce employment and that is often done through attrition. The result is that jobs young people would have hoped to fill as a result of a growing number of retirements have often disappeared. As noted above, the tendency of employers to discount the foreign work experience of new immigrants has these immigrants competing with young, Canadian-born job aspirants for entry-level positions. The significant weight given to education in assessing applicants under the FSWP has meant that the proportion of new immigrants with university-level education has been growing in parallel with the increase among young native-born workers. But it is also clear that there is a serious and perhaps growing mismatch between the needs of employers and the skills and aspirations of young Canadians entering the job market. In part, this reflects strong demand in the labour force for jobs that require significant experience — mid- and senior-level

⁵⁷ René Morissette, Garnett Picot and Yuqian Lu, “Wage Growth over the Past 30 Years: Changing Wages by Age and Education,” Statistics Canada, *Economic Insights* 008 (June 2012).

⁵⁸ René Morissette, Garnett Picot, and Yuqian Lu, “The Evolution of Canadian Wages over the Last Three Decades,” Statistics Canada, Analytical Studies Branch Research Paper Series No. 347, March 2013, <http://www.statcan.gc.ca/pub/11f0019m/11f0019m2013347-eng.pdf>.

⁵⁹ Statistics Canada, Public Use Microfiles; Author’s calculations.

⁶⁰ Student debt and rising house-prices, along with easier credit, have led to a sharp increase in mean household debt for young adults. See Allan Crawford and Umar Faruqi, “What Explains Trends in Household Debt in Canada?” *Bank of Canada Review* (Winter 2011-12): 3-15.

managerial positions are among the occupations showing signs of a shortage, and few new entrants are capable of filling these positions. More worrisome is the mismatch between the skills of many new graduates and the demand in the current market. The often-expressed view that we have entered the “post-industrial” age has perhaps diverted the attention of students and parents away from opportunities in more technical areas, including skilled trades, and towards occupations in education and the arts, where opportunities are few and competition is intense. At the same time, educational institutions have sometimes been slow to expand opportunities in areas of high demand despite significant student interest. Limited government support and constraints on tuition rates contribute to the shortage of places. This is especially true in the case of the health professions, where there is strong competition for available places in university and college programs. Moreover, funding constraints in the health-care system often mean that even graduates in areas of high need struggle to find full-time employment, often having to settle for part-time or temporary positions.

Improving outcomes for young people entering the labour force will require a variety of changes. Some are, in effect, cultural in nature, including a new willingness on the part of young people and their parents to consider careers in fields that are challenging yet potentially rewarding. Another element of the solution is a more proactive approach from government and industry to issues of education and training. Although provincial governments are significant funders of post-secondary education, governments have generally deferred to colleges and universities in decisions about program offerings. Incentive programs have sometimes been used to encourage expansion in areas considered to be of strategic importance, but on the whole, governments have focused on supporting expansion of the system as a whole and increasing access. The problems faced by young Canadians in the labour market should lead governments and industry to consider a more active role. Two ideas, already in development, merit further study:

- Several provinces are now concluding “strategic-mandate agreements” with post-secondary institutions. The agreements are expected to serve as a basis for both funding decisions and program approvals. Governments would be well advised to follow such a strategy and use this process to influence enrollment patterns by providing support for expansion in areas of high demand and reducing support or eliminating programs in fields where demand is limited.
- In recent years, universities and colleges have introduced a degree of variable pricing (tuition) for programs. In most provinces, institutions charge higher tuition for programs in law, business, engineering, and medicine than they do for programs in the arts and sciences. Such programs are typically more expensive to operate; they also hold out the best prospects for full-time employment and attractive salaries. From a market perspective, then, it makes sense to charge a higher price for programs with higher costs and better returns for graduates. From the perspective of labour-markets needs, however, the results are often perverse. Either through higher tuition or restrictive admissions policies, enrollment in programs that produce sought-after graduates is limited, while enrollment in programs where graduates encounter more difficulty in finding relevant employment is largely unconstrained. The State of Florida has recently proposed reversing this situation in state-supported institutions by lowering tuition in fields with a strong record of employment for graduates, while increasing the cost for programs with a poorer record of placement.⁶¹

⁶¹ Lizette Alvarez, “Florida May Reduce Tuition for Select Majors,” *The New York Times*, December 9, 2012, http://www.nytimes.com/2012/12/10/education/florida-may-reduce-tuition-for-select-majors.html?pagewanted=all&_r=0.

Putting this plan in practice may prove more difficult than might be imagined. Market demand for graduates can shift quickly and institutions would struggle to manage if revenues fluctuated significantly over time. Still, Canadian governments might consider using funds to subsidize costs for students in areas of high demand. This would be a better use of public funds than subsidizing the system as a whole through artificially low tuition as is true in Quebec, or through broad subsidies such as those recently introduced in Ontario.

INCREASING LABOUR-FORCE PARTICIPATION RATES FOR UNDER-REPRESENTED GROUPS

Participation rates have increased dramatically over the last generation for many groups that previously had limited attachments to the labour force. But as the rate of growth of Canada's labour force slows in the years ahead, it makes sense to encourage all those capable of work to actively participate in the labour market. The participation rates for women have increased dramatically since the 1960s, yet rates for women in the prime childbearing years still lag behind rates for men. In 2011, 82.1 per cent of women aged 25 to 44 were in the labour force versus 91.3 per cent of men.⁶² Gaudet et al. report that only 41 per cent of women who had their first child between 1970 and 1999 returned to the labour force within two years of the birth.⁶³ The rate for women has changed little since the beginning of this century, suggesting that the long-term increase for younger women has perhaps come to an end. Canada has lagged behind many European countries in creating or extending family-friendly policies that make combining work with family responsibilities easier for women. These policies have not only helped to boost participation rates, but are also associated with higher rates of fertility, thereby contributing to long-term labour-force growth.

We noted above the astonishing reversal in participation rates for older workers that has occurred since the late '90s. There is still considerable room for further growth, however. We do not fully understand what factors have driven the increase since the mid-'90s, but as more and more baby boom cohorts enter the traditional retirement years, exploring ways to keep those with critical skills in the labour market will grow in importance.

We discussed the lower rates of labour-force participation for recent immigrants in the section on immigration. The other group that stands out is Canada's indigenous population. Participation rates among this group remain low in all parts of the country. It is especially disappointing that the rates are so low even in Western Canada with its healthy provincial labour markets.⁶⁴ Exploring ways to improve educational participation and success for both on-reserve and off-reserve residents is crucial for native communities and for the labour market.

⁶² Statistics Canada, CANSIM, Table 282-002.

⁶³ Stephanie Gaudet, Martin Cooke and Joanna Jacob, "Working after Childbirth: A Lifecourse Transition Analysis of Canadian Women from the 1970s to the 2000s," *Canadian Review of Sociology* 48, 2 (2011): 153-180.

⁶⁴ See, for example, the data for Manitoba summarized in Manitoba Aboriginal and Northern Affairs, "First Nations Labour Force Participation," <http://www.gov.mb.ca/ana/apm2000/6/c.html>.

FINAL THOUGHTS

Canada is not facing a wide-scale labour shortage and is unlikely to confront one in the foreseeable future. What we do face is a serious mismatch between the skills and talents of the workforce and the demands of the labour market. There is no one single solution to this problem. An improved immigration policy is a part of the answer and the steps being taken by the current government to adjust immigration accordingly are, on the whole, important and headed in the right direction. Better preparing Canadian workers and young Canadians about to enter the labour force is essential. This is the harder part of the solution and one that will require significant efforts not only from governments and employers, but from Canadian workers as well.

About the Author

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